A Commentary on the Accounts of The Partick Thistle Football Club Limited for year ended 31 May 2022

The Elected Jags Foundation Board

Monday 7th November 2022 (updated Tuesday 8th November 2022)

1. Background

The Football Club has distributed its Annual Accounts to 31 May 2022 to its shareholders. It also published a statement on its website, though not the Accounts themselves. Both the Accounts and the public statement have provoked much comment, and speculation, among our members and the wider fanbase. We felt it would be useful to review the Accounts as best we can, and to provide our own assessment of them and their implications.

1.1 The accompanying statement

Much of the fan comment has been prompted by the self-congratulatory triumphalism of the accompanying directors' statement. That statement has seduced some into believing that we are 'in the money'. We, the TJF Board, think it is very important to explore that further, if for no other reason than to manage fans' expectations.

1.2 Financial scrutiny of a fan-owned club

We believe – especially now that the Club purports to be "fan-owned" – it is important for fans to understand the finances of their Club. It is also time for the fans to cease being deferential to the Football Club Board. Boards ought to be deferential and respectful to their ultimate owners, not the other way around.

As fans we need to believe in ourselves and our new role, and to find a fresh confidence. This means effectively questioning and challenging Football Club Board rhetoric and performance, and educating ourselves and fellow fans. In short, we need to evolve into thinking of ourselves as being entitled to ask difficult questions, regardless of the ownership vehicle. We at TJF are prepared to assume that role and to ask difficult questions.

1.3 Audited Accounts

The Accounts (which have had to be revised on two occasions since their first issue for minor errors) have of course been subject to professional audit. The audit report is 'clean'. It infers no issues with the numbers contained in the report itself. It also infers no issues with the fundamental finances of the Club looking 12 months into the future from the date of signing of the Accounts.

The auditor's conclusion provides some reassurance. However, auditors and directors are only required, for the purposes of annual accounts, to look forward 12 months from the signing of the accounts when making any going concern assessments. Our concerns are not with that short-term outlook, but with the long-term sustainability of the Club. These concerns are entirely justified given Thistle's history.

1.4 The motivation for scrutiny

We have seen some comment on social media, implying that those reviewing, understanding and educating about the accounts have an agenda: that they *want* the Club to face financial woes. The opposite is true: scrutiny is warranted precisely because we want to be sure that the Club does not face financial problems, or that if it does, there is a plan to deal with them.

2. Fixed Assets

Much of the social media comment on the Accounts to date has focussed on the property value. The Club refers to there being assets of over £14 million, whereas previously the figure in the Accounts had been closer to £5 million.

There are two components to this:

- the donation of land and buildings from Three Black Cats (3BC) to the Football Club
- an uplift in fixed asset values resulting from an updated valuation of Firhill, using a different valuation methodology.

2.1 Donation of the land

As was well publicised, the City End (or 'Bing') and the Main Stand were donated by Three Black Cats to the Football Club in April of this year.

This asset was acquired by 3BC in November 2019 for £1.956 million, according to the Scottish Land Register. Following the 3BC donation in April 2022, this donation was valued at £1.716 million.[1]

[1] It should also be noted that, in the 2019-20 Accounts, the Club registered a £900k impairment loss in relation to these assets, when, as part of the Three Black Cats take-over deal, the land was bought-out by Three Black Cats. The Club received none of the proceeds of the £1.956 million sale to 3BC in November 2019, because of how Firhill Developments Ltd (which sold the land) was structured.

2.2 Revaluation of the whole ground

In September, the Club then had the ground, as a whole, revalued, using a different valuation methodology than had previously been used. This resulted in a further uplift in the value of the Club's fixed assets, with them increasing by £7.783 million under that exercise.

2.2.1 Context of the revaluation

It is important to say that the Depreciation Replacement Cost Basis of valuation is a valid, if little-used, basis of valuation. This particular valuation has been carried out by a professional valuer. This basis of valuation essentially looks at what it would cost to replace the asset. This is the first time PTFC has used that particular valuation basis (often used for specialist assets with no ready market). The stadium (or where relevant, its constituent parts) were previously valued by the same valuers on an Open Market Value basis.

2.2.2 Limitations of Depreciation Replacement Cost valuation

The Depreciation Replacement Cost Basis of valuation has some limitations, and is not relied upon by lenders as a result. The value has been done at a time of scarcity and high prices of materials and labour which it must be presumed further inflates value. A fall under this valuation method in a future iteration will not indicate any poor performance by the Club Board, in the same way that this rise in fixed assets and net assets does not attest to any great positive performance by the Club Board.

2.3 Overall assessment on fixed assets

Whilst the fixed assets and their valuation has had much of the attention, we do not believe they are a key set of figures in the Accounts worthy of particular immediate attention. We cannot 'spend' the stadium, and we cannot borrow against that particular valuation.

Although the Accounts comply with minimum disclosure requirements, some honest transparent additional comment in the Accounts around this area may have meant some of the confusion among fans on this point would not have occurred. As it happens, the Club's statement arguably served to do the opposite, contributing to that confusion, even if not intentionally.

3. Balance Sheet and Liquidity

In our view an important measure of liquidity is Net Current Assets. That is the excess of cash and things which can easily be turned into cash over the amounts due out to creditors. That measure has fallen in the 2022 Accounts from a comfortable £281,410 to £79,957.

3.1 The Current Ratio

As a ratio, the Net Current Assets have fallen from 1.65 to 1.1. This is known as the Current Ratio. A Current Ratio of below 1 is commonly accepted to mean a company doesn't have enough liquid assets to cover its short-term liabilities. Clearly, it is important for this ratio to exceed 1 (especially with the sometimes unexpected costs of having an ageing stadium).

3.2 Why has the Current Ratio fallen?

The main reason for the erosion of Net Current Assets is that the Operating Loss in 2021-22 has impacted cash reserves.

The Cash Reserves at the year-end were £331,892, down from £623,930 at the previous year-end. As a matter of fact, this is the lowest year-end cash balance the Club have had since 2016. This figure is also lower than Greenock Morton showed on its 2021 Balance Sheet, and its financial plight has been much commented upon subsequently.

3.3 Putting our Net Current Assets and Cash in context

Once all of the 2021-22 Accounts for SPFL Championship clubs have been published, we will produce a “league table” on the important measures of Net Current Assets, and Cash for those clubs. We think this will help fans to understand our financial health relative to our near competitors, and to contexualise the numbers for those less familiar with football clubs and their financial statements.

4. Profit & Loss

The Operating Loss of the Football Club is £215k. This is after “Other” Operating Income of £137k.

4.1 Other Operating Income

We believe that, when accounting for “Other” Operating Income, the accounts ought to include the following sources for the 2021-22 financial year:

- Queen’s Park groundshare income
- Any cash received from Three Black Cats Limited
- Any grants related to Covid, etc.

Our understanding of this set of Accounts is that the “Other Operating Income” heading does not include *all* of these sources of income. Some of it is, for whatever reason, included in other Accounts headings.

4.2 Why is non-recurring income important?

The three types of income we mentioned above are non-recurring (i.e. they do not apply to future financial years). It would therefore have been helpful to have a sightline on these, so that a judgement can be made as to the underlying operating position before income that does not recur.

In the Accounts, the figure for the Operating Loss, excluding Other Operating Income, is £352,707.

However, we believe that, in fact, stripping out of all non-recurring sources of income would take the Operating Loss before non-recurring income to close to £500k. The previous year's equivalent figure was £512k.

4.3 What does this mean?

If we are correct, this would mean that for the two years ended 31 May 2022, the Board have presided over Operating Losses of close to £1m prior to any non-recurring income.

To be clear, we have no sightline of the current trading year. This is only a look-back at the year to May 2022. We can infer certain things from our knowledge of the Club's known income sources, non-recurring income, and expenditure, but nothing can be certain.

We cannot know for sure whether non-recurring sources of income have been replaced for the financial year in 2022-23, and, if so, how and to what extent. These Accounts simply do not address this; that is not their function. However, this emphasises the limitations of financial scrutiny that depends only on retrospective information.

All fans do of course have recent assurances from the PTFC Trust regarding the finances.

5. General Comments

The belief of both the original TJF Board, and its current elected Board, has always been that the Club should be handed over to a fan ownership vehicle on a sustainable breakeven basis. We were repeatedly told that would indeed be the case.

We understand as recently as February that our predecessor Board were being told that the 2021-22 financial year would deliver an approximately breakeven result.

The accompanying statement put out by the Club Board with the Accounts talks about taking the decision to 'increase the budget in one area, the football budget'. We believe this is revisionism. We do not understand how there could be an expectation of a balanced budget in February (and later) – which was after the transfer window had shut – and yet there is a £215k loss in the Accounts attributed to additional spending on the playing squad.

It is very important for there to be transparency around this; not least because if the starting position is unclear, then fan ownership could be incorrectly blamed for any problems which arise. It is therefore in everyone's interest to properly understand where we begin the fan ownership journey.

6. The PTFC Trust

Arising from our meeting with The PTFC Trust last week (which we will shortly be communicating about further), we provided them with an opportunity to comment on the issues we identified above, and to assist us in educating fans about the financial accounts. We thought this would be in the interests of greater understanding, now that the fans are to be owners of the Club. The PTFC Trust trustees have declined to do so.

We believe that, under fan ownership, the holding of shares should be a by-product of being a good robust democratic fans organisation. Being a supporters' organisation should never be a by-product of holding shares. We further believe representatives of a fans' organisation owe their duty of care and deference to the fans – no one else.

NB the footnote on page 2 of this document was updated on Tuesday 8th November to clarify why the Club suffered a £900k impairment loss in the 2019-20 accounts.